

**PONTIAC HOUSING COMMISSION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
MARCH 31, 2007**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pontiac Housing Commission	County Oakland
Fiscal Year End March 31, 2007	Opinion Date October 19, 2007	Date Audit Report Submitted to State December 21, 2007	

We affirm that:

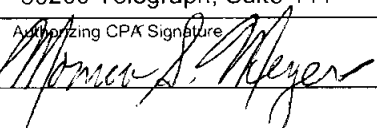
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Martin, Arrington, Desai & Meyers		Telephone Number 248-645-5370	
Street Address 30200 Telegraph, Suite 444		City Bingham Farms	State MI
Zip 48025			
Authorizing CPA Signature 		Printed Name Monica Meyers	License Number 1101025642

PONTIAC HOUSING COMMISSION
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Martin, Arrington, Desai & Meyers, P.C.

Certified Public Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT

October 19, 2007

Board of Commissioners
Pontiac Housing Commission
Pontiac, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

We have audited the accompanying general purpose financial statements of the Pontiac Housing Commission, as of and for the year ended March 31, 2007. These general purpose financial statements are the responsibility of the Pontiac Housing Commission's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements, referred to above, present fairly, in all material respects, the financial position of the Pontiac Housing Commission, as of March 31, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007 on our consideration of the Pontiac Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grant agreements and others. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Financial Data Schedule and Schedule of Expenditures of Federal Awards as required by the Department of Housing and Urban Development and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Pontiac Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin, Arrington, Desai & Meyers, P.C.

Martin, Arrington, Desai & Meyers, P.C.
Certified Public Accountants

**PONTIAC HOUSING COMMISSION
STATEMENT OF NET ASSETS
MARCH 31, 2007**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,917,048
Prepaid expenses	18,378
Accounts receivable - miscellaneous	199,618
Accounts receivable - tenants, net	21,070
Accounts receivable - HUD	257,478
Interprogram due from	1,000,000
Inventories, net	<u>12,379</u>
Total current assets	5,425,971

Non-current Assets:

Capital assets:	1,753,492
Land	18,202,679
Buildings	455,722
Furniture and equipment - dwellings	873,518
Furniture and equipment - administration	<u>21,285,411</u>
Total capital assets	(13,944,611)
Accumulated depreciation	7,340,800
Capital assets, net	<u>21,702</u>
Other assets	<u>\$ 12,788,473</u>
Total Assets	<u><u>\$ 12,788,473</u></u>

The accompanying notes are an integral part of this statement

**PONTIAC HOUSING COMMISSION
STATEMENT OF NET ASSETS
MARCH 31, 2007**

LIABILITIES

Current Liabilities:	Accounts payable	\$ 332,682
	Accrued liabilities	72,520
	Accrued wage/payroll taxes payable	213,633
	Accrued compensated absences	42,000
	Tenant security deposits	66,231
	Deferred revenue	3,898
	Interprogram due to	1,000,000
	Other current liabilities	236
		<hr/>
	Total current liabilities	1,731,200
Non-Current Liabilities:	Accrued compensated absences - non current	176,884
		<hr/>
	Total non-current liabilities	176,884
		<hr/>
	Total liabilities	1,908,084
		<hr/>
NET ASSETS	Investment in capital assets, net of related debt	7,340,800
	Restricted net assets	3,539,589
		<hr/>
	Total Net Assets	10,880,389
		<hr/>
	Total Liabilities and Net Assets	\$ 12,788,473
		<hr/> <hr/>

The accompanying notes are an integral part of this statement

**PONTIAC HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2007**

OPERATING REVENUES:

Net Tenant Rental Revenue	\$ 823,407
HUD PHA Operating Grants	7,114,760
Other Federal Grants	40,057
Miscellaneous	53,466
Total operating revenues	<u>8,031,690</u>

OPERATING EXPENSES:

Administrative	1,773,399
Tenant services	29,923
Utilities	597,862
Maintenance	651,430
Protective services	108,496
General expenses	248,006
Housing assistance payments	3,747,452
Depreciation	791,939
Total operating expenses	<u>7,948,507</u>
Operating income (loss)	83,183

NONOPERATING REVENUES

Interest and investment revenue	<u>132,308</u>
Net income (Loss)	215,491

Capital Grants	<u>2,085,606</u>
Change in net assets	2,301,097

NET ASSETS, April 1, 2006	8,661,651
Prior Period Adjustments	<u>(82,359)</u>
NET ASSETS, March 31, 2007	<u><u>\$ 10,880,389</u></u>

The accompanying notes are an integral part of this statement

**PONTIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from tenants	\$ 804,495
Operating grants received	6,989,548
Other operating cash receipts	78,628
Cash received from security deposits	9,120
Cash paid for operating expenditures	(6,017,573)
Cash paid to employees for services	(858,834)
Cash returned to HUD	(4,333)
	<u>1,001,051</u>
Net cash provided by operating activities	

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	(2,122,691)
Capital Grants Received	<u>2,211,606</u>
Net cash provided by capital and related financing activities	<u>88,915</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Decrease in Investments	100,659
Interest Income	<u>132,308</u>
Net cash provided by investing activities	<u>232,967</u>

Net Increase (decrease) in Cash and cash equivalents	<u>1,322,933</u>
Cash, April 1, 2006	<u>2,594,115</u>
Cash, March 31, 2007	<u><u>\$ 3,917,048</u></u>

The accompanying notes are an integral part of this statement

**PONTIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007**

Reconciliation of change in net assets to net cash provided by operating activities:

Increase in net assets	\$ 2,301,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	791,939
Capital Grants	(2,085,606)
Interest Income	(132,308)
Changes in Operating Assets and Liabilities:	
Receivables - Miscellaneous	25,162
Tenant accounts receivable	(14,986)
Prepaid expenses	66,640
Inventories	9,736
Other assets	63,125
Accounts payable	(8,983)
Accrued liabilities	(9,461)
Accounts Payable - HUD	(169,602)
Accrued wage/payroll taxes payable	162,878
Accrued compensated absences	(3,774)
Tenant security deposits	9,120
Deferred revenues	(3,926)
Total adjustments	<u>(1,300,046)</u>
Net cash provided by operating activities	<u><u>\$ 1,001,051</u></u>

The accompanying notes are an integral part of this statement

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity -

The Pontiac Housing Commission (“Commission”) was created by ordinance of the City of Pontiac. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following at March 31, 2007:

MI 5-1	Low Rent Program	442 units
MI 28-V005	Section 8 Vouchers	768 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. Sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the “primary government”. A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component unit exists.

These criteria were considered in determining the reporting entity.

Basis of Presentation –

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Accounting -

The Commission uses enterprise fund accounting to account for its assets, liabilities and net assets, and for the results of its operations. The enterprise fund type was used because the Commissions' operations are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

Basis of Accounting –

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The full accrual basis of accounting is used. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable.

Budgetary data –

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets –

Cash Equivalents

Cash equivalents represent investments purchased with an original maturity of three months or less.

Inventory

Inventory is valued at the lower of cost (First in, first out) or market value. Inventory consists of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All fixed assets are valued at historical cost or estimated historical costs if actual historical cost is unavailable. The Commission capitalizes items costing at least \$500 with a life of more than one year.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives of the asset, using the straight line method. The estimated useful lives are as follows:

Building and Improvements	27.5 years
Equipment	3 – 10 years

Compensated Absences

Vacation, sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Inter-fund Balances

The Housing Choice Voucher program has advanced \$1,000,000 to the Low Rent program. Elimination of the inter-fund "due to" and "due from" accounts has not been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires the Commission to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 2 – CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is as follows:

Checking Accounts	\$ 3,811,903
Money Market Savings	104,645
Petty Cash	<u>500</u>
	<u>\$ 3,917,048</u>

Each of the Commission's checking accounts have a sweep investment feature where excess funds are deposited to an interest bearing account on a daily basis. The Commission maintains its bank accounts with one banking institution. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At March 31, 2007, the Commission's cash deposits exceeded the FDIC insured limits by \$3,648,691. It is the opinion of Management that the solvency of that financial institution is not of particular concern at this time.

NOTE 3 – LAND, BUILDINGS AND EQUIPMENT

Land, Buildings and Equipment balances at March 31, 2007 consisted of the following:

	<u>Beginning Of Year*</u>	<u>Additions</u>	<u>End of Year</u>
Land	\$ 1,753,492	\$	\$ 1,753,492
Buildings	16,196,246	2,006,433	18,202,679
Furniture & Equipment – Dwellings	340,793	114,929	455,722
Furniture & Equipment – Admin	<u>872,189</u>	<u>1,329</u>	<u>873,518</u>
	19,162,720	2,122,691	21,285,411
Less: Accumulated Depreciation	<u>13,152,672</u>	<u>791,939</u>	<u>13,944,611</u>
Total Land, Structures, And Equipment	<u>\$ 6,010,048</u>	<u>\$ 1,330,752</u>	<u>\$ 7,340,800</u>

* Beginning of year balances have been restated for a prior period adjustment (see Note 8) and for certain category re-classifications.

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 4 – RETIREMENT PLAN

The Commission provides a pension benefits plan for all its full time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to participate from the date of employment. The Commission contributes an amount equal to 3% of the employee's base salary each month while the employees may not contribute. The Commission's contributions for each employee are vested in varying increments based upon union agreements. Commission contributions for, and interest forfeited by, employees who leave employment are used to reduce the Commission's current-period contribution requirement.

The Pension Plan is the City of Pontiac Employees Retirement System which includes the General City (including Commission employees) and the Stadium Authority. Commission employees are not separated from other participants, therefore Actuarial Accrued Liability and Annual Required Contributions data have not been presented. Further information can be obtained from the City of Pontiac Employees' Retirement System Annual Report.

NOTE 5 – ECONOMIC DEPENDENCY

The Commission receives the majority of the funds used for housing projects from the United States' Department of Housing and Urban Development.

NOTE 6 – RISK MANAGEMENT

In the normal course of business, the Pontiac Housing Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

PONTIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 7 – GRANTS

The Commission participates in federal grant programs, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Commission has not complied with the rules and regulations governing, refunds of any money received may be required and the collectibility of any related receivable at March 31, 2007 may be impaired. In the opinion of the Commission, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying general purpose financial statements for such contingencies. The Commission is subject to possible examination by Federal authorities that determine compliance with terms, conditions, laws and regulations governing grants given to the Commission in the current and prior years.

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2007, the Commission discovered errors made in the prior year, which have been corrected, as follows:

Account receivable - HUD, overstated due to disallowed costs	\$ (10,000)
Account payable - HUD for Housing Choice vouchers not recorded	(165,269)
Account payable - HUD for unexpended KDHAP funds not recorded	(4,333)
Accounts payable - other for Housing Choice program not recorded	(29,599)
Prepaid expenses understated	446
Other assets understated	19,606
Capital assets understated - CFP	40,185
Accounts payable - CFP overstated	<u>66,605</u>
Total prior period adjustments	\$ (82,359)
Net Assets at March 31, 2006, as previously reported	<u>8,661,651</u>
Net Assets at March 31, 2006, as restated	<u><u>\$ 8,579,292</u></u>

Financial Data Schedule - Balance Sheet

Line Item #	Account Description	Low Rent 14.850a	Housing Choice Voucher 14.871	ESS Grant 14.871	KDHAP 97.189	CFF 14.872	TOTAL
	ASSETS:						
	CURRENT ASSETS:						
	Cash:						
111	Cash - unrestricted	2,159,924	1,693,495			63,629	3,917,048
112	Cash - restricted - modernization and development						-
113	Cash - other restricted						-
114	Cash - tenant security deposits						-
115	Cash - restricted for payment of current liability						-
100	Total cash	2,159,924	1,693,495			63,629	3,917,048
	Accounts and notes receivables:						
121	Accounts receivable - PHA projects						-
122	Accounts receivable - HUD other projects					257,478	257,478
124	Accounts receivable - other government						-
125	Accounts receivable - miscellaneous	181,446	18,172				199,618
126	Accounts receivable - tenants - dwelling rents	42,379					42,379
126.1	Allowance for doubtful accounts - dwelling rents	(21,309)					(21,309)
126.2	Allowance for doubtful accounts - other						-
127	Notes, loans & mortgages receivable - current						-
128	Fraud recovery						-
128.1	Allowance for doubtful accounts - fraud						-
129	Accrued interest receivable						-
120	Total receivables, net of allowances for doubtful accounts	202,516	18,172			257,478	478,166
	Current investments						
131	Investments - unrestricted						-
132	Investments - restricted						-
135	Investments - restricted for payment of current liability						-
142	Prepaid expenses and other assets	18,378					18,378
143	Inventories	12,504					12,504
143.1	Allowance for obsolete inventories	(125)					(125)
144	Interprogram - due from		1,000,000				1,000,000
145	Assets held for sale						-
146	Amounts to be provided						-
150	TOTAL CURRENT ASSETS	2,393,197	2,711,667			321,107	5,425,971

Financial Data Schedule - Balance Sheet

Line Item #	Account Description	Low Rent 14,850a	Housing Choice Voucher 14,871	ESS Grant 14,871	KDHAP 97,109	CFP 14,872	TOTAL
	NONCURRENT ASSETS:						
	Fixed assets:						
161	Land	1,753,492					1,753,492
162	Buildings	14,404,329				3,798,350	18,202,679
163	Furniture, equipment & machinery - dwellings	276,544				179,178	455,722
164	Furniture, equipment & machinery - administration	731,599	26,561			115,358	873,518
165	Leasehold improvements						-
168	Infrastructure						-
166	Accumulated depreciation	(13,774,385)	(21,529)			(148,697)	(13,944,611)
167	Construction in progress						-
160	Total fixed assets, net of accumulated depreciation	3,391,579	5,032			3,944,189	7,340,800
	Other Non Current Assets						
171	Notes, loans & mortgages receivable - non current						-
172	Notes, loans & mortgages receivable - non current -past due						-
173	Grants Receivable - non current						-
174	Other assets	21,702					21,702
176	Investment in joint ventures						-
180	TOTAL NONCURRENT ASSETS	3,413,281	5,032			3,944,189	7,362,502
190	TOTAL ASSETS	5,806,478	2,716,699			4,265,296	12,788,473
	LIABILITIES AND EQUITY:						
	LIABILITIES:						
	Current Liabilities						
311	Bank overdraft						-
312	Accounts payable ≤ 90 days	246,757	85,925				332,682
313	Accounts payable > 90 days past due						-
321	Accrued wage/payroll taxes payable	174,380	39,253				213,633
322	Accrued compensated absences - current portion	26,000	16,000				42,000
324	Accrued contingency liability						-
325	Accrued interest payable						-
331	Accounts payable - HUD PHA programs						-
332	Accounts Payable - PHA Projects						-
333	Accounts payable - other government						-
341	Tenant security deposits	66,231					66,231
342	Deferred revenues	3,898					3,898
343	Current portion of Long-Term debt - capital projects/mortgage revenue bonds						-
344	Current portion of Long-Term debt - operating borrowings						-
345	Other current liabilities	236					236
346	Accrued liabilities - other	72,520					72,520
347	Inter-program - due to	1,000,000					1,000,000
348	Loan Liability - current						-
310	TOTAL CURRENT LIABILITIES	1,590,022	141,178			-	1,731,200

Financial Data Schedule - Balance Sheet

Line Item #	Account Description	Low Rent 14.850a	Housing Choice Voucher 14.871	RSS Grant 14.871	KDHAP 97.109	CFP 14.872	TOTAL
	Non Current Liabilities						
351	Long-term debt, net of current- capital projects/ mortgage revenue bonds						-
352	Long-term debt, net of current- operating borrowings						-
353	Noncurrent liabilities- other						-
354	Accrued Compensated Absences - non current	149,537	27,347				176,884
355	Loan Liability - non current						-
350	TOTAL NONCURRENT LIABILITIES	149,537	27,347			-	176,884
300	TOTAL LIABILITIES	1,739,559	168,525			-	1,908,084
	EQUITY:						
501	Investment in general fixed assets						-
	Contributed Capital:						
502	Project notes (HUD)						-
503	Long-term debt - HUD guaranteed						-
504	Net HUD PHA contributions						-
505	Other HUD contributions						-
507	Other contributions						-
508	Total contributed capital	-	-			-	-
508.1	Invested in Capital Assets, Net of Related Debt	3,391,579	5,032			3,944,189	7,340,800
	Reserved fund balance:						
509	Reserved for operating activities	675,340	2,543,142				3,218,482
510	Reserved for capital activities					321,107	321,107
511	Total reserved fund balance	675,340	2,543,142		-	321,107	3,539,589
511.1	Restricted Net Assets						-
512	Undesignated fund balance/retained earnings						-
512.1	Unrestricted Net Assets						-
513	TOTAL EQUITY/NET ASSETS	4,066,919	2,548,174		-	4,265,296	10,880,389
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	5,806,478	2,716,699		-	4,265,296	12,788,473
	Proof of concept	-	-		-	-	-

Financial Data Schedule - Revenue & Expenses

	Account Description	Low Rent 4,850a	Housing Choice Voucher 14,871	FSS Grant 14,871	KDHAP 97,109	CFP 14,872	TOTAL
	REVENUE:						
703	Net tenant rental revenue	823,407					823,407
704	Tenant revenue - other						-
705	Total tenant revenue	823,407	-			-	823,407
706	HUD PHA operating grants	1,166,905	5,567,232	23,500		357,123	7,114,760
706.1	Capital Grants					2,085,606	2,085,606
708	Other government grants				40,057		40,057
711	Investment income - unrestricted	76,984					76,984
712	Mortgage interest income						-
713	Proceeds from disposition of assets held for sale						-
713.1	Cost of sale of assets						-
714	Fraud recovery						-
715	Other revenue	53,466					53,466
716	Gain or loss on the sale of fixed assets						-
720	Investment income - restricted		55,324				55,324
700	TOTAL REVENUE	2,120,762	5,622,556	23,500	40,057	2,442,729	10,249,604
	EXPENSES:						
	Administrative						
911	Administrative salaries	525,312	226,767		2,357	54,000	808,436
912	Auditing fees	12,000					12,000
913	Outside management fees						-
914	Compensated absences	30,942	9,087				40,029
915	Employee benefit contributions- administrative	234,200	118,388				352,588
916	Other operating- administrative	290,131	46,708			223,507	560,346
	Subtotal	1,092,585	400,950	-	2,357	277,507	1,773,399
	Tenant services						
921	Tenant services - salaries			23,500			23,500
922	Relocation costs						-
923	Employee benefit contributions- tenant services						-
924	Tenant services - other	6,423					6,423
	Subtotal	6,423		23,500			29,923

Financial Data Schedule - Revenue & Expenses

	Account Description	Low Rent 14,850	Housing Choice Voucher 14,871	FSS Grant 14,871	KDHAP 97,109	CFP 14,472	TOTAL
	Utilities						
931	Water	116,805					116,805
932	Electricity	192,004					192,004
933	Gas	289,053					289,053
934	Fuel						-
935	Labor						-
937	Employee benefit contributions- utilities						-
938	Other utilities expense						-
	Subtotal	597,862	-			-	597,862
	Ordinary maintenance & operation						
941	Ordinary maintenance and operations - labor	56,143					56,143
942	Ordinary maintenance and operations - materials & other	122,329					122,329
943	Ordinary maintenance and operations - contract costs	457,988				14,970	472,958
945	Employee benefit contributions- ordinary maintenance						-
	Subtotal	636,460	-			14,970	651,430
	Protective services						
951	Protective services - labor	89,830					89,830
952	Protective services- other contract costs					18,666	18,666
953	Protective services - other						-
955	Employee benefit contributions- protective services						-
	Subtotal	89,830	-			18,666	108,496
	General expenses						
961	Insurance premiums	206,607					206,607
962	Other General Expenses						-
963	Payments in lieu of taxes						-
964	Bad debt - tenant rents	41,399					41,399
965	Bad debt- mortgages						-
966	Bad debt - other						-
967	Interest expense						-
968	Severance expense						-
	Subtotal	248,006	-			-	248,006
969	TOTAL OPERATING EXPENSES	2,671,166	400,950	23,500	2,357	311,143	3,409,116

Financial Data Schedule - Revenue & Expenses

	Account Description	Low Rent 14.850a	Housing Choice Voucher 14.871	PSS Grant 14.871	KDHAP 97.109	CFP 14.872	TOTAL
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(550,404)	5,221,606	-	37,700	2,131,586	6,840,488
971	Extraordinary maintenance						-
972	Casualty losses - non-capitalized						-
973	Housing assistance payments		3,709,752		37,700		3,747,452
974	Depreciation expense	708,339	1,508			82,092	791,939
975	Fraud losses						-
976	Capital outlays- governmental funds						-
977	Debt principal payment- governmental funds						-
978	Dwelling units rent expense						-
900	TOTAL EXPENSES	3,379,505	4,112,210	23,500	40,057	393,235	7,948,507
	OTHER FINANCING SOURCES (USES)						
1001	Operating transfers in						-
1002	Operating transfers out						-
1003	Operating transfers from/to primary government						-
1004	Prior Period Adjustments, Equity/Net Assets						-
1005	Proceeds from notes, loans and bonds						-
1006	Proceeds from property sales						-
1007	Extraordinary Items (net gain/loss)						-
1008	Special Items (net gain/loss)						-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-			-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL	(1,258,743)	1,510,346	-	-	2,049,494	2,301,097

Financial Data Schedule - Revenue & Expenses

	Account Description	Low Rent 14.850a	Housing Choice Voucher 14.871	FSS Grant 14.871	KDHAP 97.109	CPF 14.872	TOTAL
MEMO account information							
1101	Capital contributions						-
1102	Debt principal payments- enterprise funds						-
1103	Beginning equity	5,570,796	1,227,451	-	-	1,863,404	8,661,651
1104	Prior period adjustments, equity transfers and correction of errors	(245,134)	(189,623)			352,398	(82,359)
1105	Changes in compensated absence liability balance (in the GLTDAG)						-
1106	Changes in contingent liability balance (in the GLTDAG)						-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)						-
1108	Changes in special term/severance benefits liability (in the GLTDAG)						-
1109	Changes in allowance for doubtful accounts - dwelling rents						-
1110	Changes in allowance for doubtful accounts - other						-
1112	Depreciation "add back"						-
1113	Maximum annual contributions commitment (per ACC)						-
1114	Prorata maximum annual contributions applicable to a period of less than twelve months						-
1115	Contingency reserve, ACC program reserve						-
1116	Total annual contributions available						-
1120	Unit months available						-
1121	Number of unit months leased						-
Equity Roll Forward Test:							
	Calculation from R/E Statement	4,066,919	2,548,174	-	-	4,265,296	10,880,389
	B/S Line 512	4,066,919	2,548,174	-	-	4,265,296	10,880,389
	Difference						

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 19, 2007

Board of Commissioners
Pontiac Housing Commission
Pontiac, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

We have audited the financial statements of the Pontiac Housing Commission as of and for the year ended March 31, 2007 and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pontiac Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pontiac Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pontiac Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pontiac Housing Commission's ability to initiate, authorize, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Pontiac Housing Commission's financial statements that is more than inconsequential will not be prevented or detected by Pontiac Housing Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Pontiac Housing Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pontiac Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Pontiac Housing Commission in a separate letter dated October 19, 2007.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development, and is not intended to be and should not be used by anyone other than these specified parties.

Martin, Arrington, Desai & Meyers, P.C.

Martin, Arrington, Desai & Meyers, P. C.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 19, 2007

Board of Commissioners
Pontiac Housing Commission
Pontiac, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Compliance

We have audited the compliance of the Pontiac Housing Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Pontiac Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pontiac Housing Commission's management. Our responsibility is to express an opinion on Pontiac Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis,

evidence about Pontiac Housing Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pontiac Housing Commission's compliance with those requirements.

In our opinion, Pontiac Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items # 2007-1 through # 2007-4.

Internal Control Over Compliance

The management of the Pontiac Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pontiac Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pontiac Housing Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined above.

Pontiac Housing Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pontiac Housing Commission's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Pontiac Housing Commission as of and for the year ended March 31, 2007, and have issued our report thereon dated October 19, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development, and is not intended to be and should not be used by anyone other than those specified parties.

Martin, Arrington, Desai & Meyers, P.C.

Martin, Arrington, Desai & Meyers, P. C.
Certified Public Accountants

**PONTIAC HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2007**

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA/AGENCY NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Department of Housing and Urban Development		
Direct Programs:		
Low Rent Public Housing	14.850a	\$ 1,166,905
Housing Choice Vouchers	14.871	4,110,702
Family Self-sufficiency Program	14.871	23,500
Capital Fund Program	14.872	2,433,835
Department of Homeland Security, Federal Emergency Management Agency, passed through the Department of Housing and Urban Development:		
Katrina Disaster Housing Assistance Grant	97.109	<u>40,057</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 7,774,999</u>

PONTIAC HOUSING COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Pontiac Housing Commission and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**PONTIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2007**

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Pontiac Housing Commission.
2. No significant deficiencies relating to the financial statements were identified during the audit.
3. No instances of noncompliance material to the financial statements of the Pontiac Housing Commission, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of major federal award programs were disclosed.
5. The auditor's report on compliance for the major programs, identified in # 7 below, expresses a unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Programs</u>	<u>C.F.D.A./ Agency Number</u>
a. Low Rent Public Housing	14.850a
b. Housing Choice Vouchers	14.871
c. Public Housing Capital Fund Program	14.872

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Pontiac Housing Commission did not qualify as a low-risk auditee.

**PONTIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2007**

FINDING – FINANCIAL STATEMENTS AUDIT

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding # 2007 -1 - General Ledger Maintenance

Condition: Financial reporting is not always based upon financial information, maintained in the general ledger. General ledger postings did not contain all financial activity for the year. Accounts to record certain grant activity were not established.

Criteria: Internal controls should be in place to properly utilize the general ledger for financial reporting. New grant activity should be supported by establishing separate accounts to track the revenues and expenditures for that grant.

Effect: Revenues for the Housing Choice Voucher program did not agree with the general ledger due to funds held back by HUD. Revenues for the Family Self-sufficiency (FSS) grant and for the KDHAP were not separated in the general ledger. Since the general ledger was not utilized properly for financial reporting, the FSS grant was omitted from the Commission's initial Financial Data Schedule, and the amounts received and expended for the KDHAP were misreported.

Recommendation: All financial reporting should be based on entries recorded in the general ledger, and all figures should be reconciled with the general ledger. Revenue and expense accounts, and if applicable, asset and liability accounts should be established for all new grant activity.

Grantee Response: All reporting will be based on entries recorded in the general ledger. Revenue, expense, asset and liability accounts will be established for all new grant activity.

FINDING # 2007-2 – Section 8, Housing Choice Vouchers, CFDA 14.871

Condition: HUD notice PIH 2006-03 mandates the tracking of HAP and Administrative fee equity. The general ledger does not separate the net asset accounts associated with HAP or Administrative fee equity. Additionally, we believe that the equity accounts, which are principally derived from Federal government revenues, should be restricted funds. During the preceding fiscal year and the current fiscal year, the Housing Choice

**PONTIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED MARCH 31, 2007**

Finding # 2007-2, Continued:

Voucher program loaned funds, totaling \$1,000,000, to the Low Rent program. Since all Housing Choice Voucher funds are restricted, such loans would be prohibited.

Criteria: General ledger accounts should be established to properly track and report the restricted funds associated with HAP and Administrative fee equity. Funds received for the Housing Choice Voucher program should not be loaned to other programs.

Effect: Proper reporting of fund equity cannot be calculated. The effect of the inter-fund loan is that investment earnings, associated with excess funds of the Housing Voucher program, are now earned by and reported in the Low Rent program.

Recommendation: Proper general ledger accounts should be established to track the HAP and Administrative fee equity of the Housing Choice Voucher program. Funds loaned from the Housing Choice Voucher program to the Low Rent program should be repaid as soon as possible, and interest earned on those funds should be calculated and remitted at that time.

Grantee Response: Proper general ledger accounts will be established to track the HAP and administrative fee equity of the Housing Choice Voucher program. Funds loaned from the Housing Choice Voucher program to the Low Rent program will be repaid and interest earned on the funds will be transferred to the Housing Choice Voucher program as well.

FINDING # 2007-3 – Low Rent Public Housing, CFDA 14.850a and Section 8, Housing Choice Vouchers, CFDA 14.871

Condition: Related party amounts receivable are not collected in a timely manner. The Commission was over-charged by the City of Pontiac for employee pension contributions several years ago in the amount of \$193,741. Accounts receivable of \$175,569 in the Low Rent program and \$18,172 in the Housing Choice Voucher program were recorded to account for the overpayment. These balances remain outstanding at March 31, 2007. In 2004, a Commissioner charged personal costs, totaling \$1,336, to the Commission. Those costs were disallowed and a receivable for that amount was established. To date, no repayment has been made on that receivable. An employee received a replacement payroll check in error during the year ended March 31, 2006 for \$ 834. This amount remains outstanding, and the employee is no longer employed by the Commission.

**PONTIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED MARCH 31, 2007**

Finding # 2007-3, Continued:

Criteria: Accounts receivable from related parties should be collected in a timely manner.

Effect: Program funds are being utilized for unallowable costs.

Recommendation: Collection of these amounts should be pursued in a timely manner.

Grantee Response: Collection will be pursued in a timely manner. Correspondence will be sent to involved parties, reminding them of their debt to the Pontiac Housing Commission. If necessary, legal action will be taken to recover these funds.

FINDING # 2007-4 – Low Rent Public Housing, CFDA 14.850a and Public Housing Capital Fund Program, CFDA 14.872

Condition: Property, plant and equipment account balances per the general ledger do not agree with the subsidiary property ledger. Items of equipment traded-in, scrapped or otherwise written-off during the year were not removed from the general ledger.

Criteria: General ledger account balances should be supported by sufficient documentation and details.

Effect: Reportable amounts for property, plant and equipment balances and related accumulated depreciation amounts may not be accurate.

Recommendation: Property ledgers should be reviewed for accuracy and possibly supported by an inventory of all items of property and equipment. Journal entries to reconcile the general ledger to the detailed fixed asset listings should be made. Procedures should be established to remove items of property and equipment from the general ledger and the subsidiary ledger at the time those items are removed from service.

Grantee Response: An inventory will be taken of all equipment. Journal entries will be made to reconcile the differences between the general ledger and the detailed fixed asset listing. Procedures will be established to remove assets from the general ledger and the subsidiary ledger at the time they are removed from service and the write-off is approved by the Board.

**PONTIAC HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED MARCH 31, 2007**

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FINDING NO. 1 –

Condition: Tenant rent payments were calculated incorrectly using the net income for Social Security.

Recommendation: The responsible employee should be reminded of the procedures in place to ensure correct calculation of tenant's rent.

Current Status: Our testing of rent payments during the current year did not indicate any errors in the calculations of tenant rent payments. Finding cleared.

FINDING NO. 2 –

Condition: Certain documents required to be maintained in the tenant files were missing

Recommendation: The responsible employee should be reminded of the procedures in place to ensure proper tenant file maintenance.

Current Status: Our testing of tenant files during the current year did not indicate any instances of missing documentation. Finding cleared.

PONTIAC HOUSING COMMISSION

MANAGEMENT LETTER

MARCH 31, 2007

Martin, Arrington, Desai & Meyers, P.C.

Certified Public Accountants & Consultants

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248.645.5370
FAX 248.645.5020

1010 FORD BUILDING
615 GRISWOLD
DETROIT, MICHIGAN 48226
313.964.1370

October 19, 2007

Board of Directors
Pontiac Housing Commission
Pontiac, Michigan

In planning and performing our audit of the financial statements of Pontiac Housing Commission for the year ended March 31, 2007, we considered the Commission's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Commission's internal control in our report dated October 19, 2007 for a financial and compliance audit. This letter does not affect our report dated October 19, 2007 on the financial statements of Pontiac Housing Commission.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Commission personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. The following comments and recommendations are all included in the Schedule of Findings and Questioned Costs section of our Reports on Internal Control and Compliance. Our comments are summarized as follows:

General Ledger Maintenance

We noted that financial reporting is not always based upon financial information contained in the general ledger, that separate accounts to track certain grant activity had not been established, and that certain financial activity had not been entered into the general ledger. We recommended that all financial reporting be based upon general ledger balances, that all financial activity be reported in the general ledger, and that separate accounts be established to record, track and report all new grant activity.

Inter-program Loans

The Housing Choice Voucher program has loaned \$1,000,000 to the Low Rent program, so that interest would be earned in and retained by the Low Rent program. Housing Choice Voucher funds are restricted for use in that program only. We believe that the

loan made is a prohibited transaction, and recommended that the advance be repaid with interest as soon as practical. We further noted that the Commission needs to track the HAP and Administrative Fee equity of the Housing Choice Voucher program to comply with HUD regulations.

Related Party Accounts Receivables

We noted that amounts receivable from the City of Pontiac, Commissioners, and former employees were not collected in a timely manner, and recommended that collection of related party amounts be pursued in a timely manner.

Property, Plant and Equipment

The Commission's supporting subsidiary fixed assets property ledger does not agree to the amounts reported in the general ledger. We also noted that certain items of equipment that had been traded-in, scrapped or written off had not been removed from the property ledger or the general ledger. We recommended that the property ledgers be reviewed for accuracy and the general ledger and property ledger be reconciled. We further recommended that procedures be established and followed to delete items of equipment from the ledgers at the time those items are removed from service.



Martin, Arrington, Desai & Meyers, P.C.
Certified Public Accountants